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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Fulton Independent Board of Education
Fulton, Kentucky

We have audited the accompanying general purpose financial statements of the Fulton Independent School District as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the general fixed assets account group which should be included to conform with generally accepted accounting principles. The amounts that should be recorded as assets are not readily available.

In our opinion, except for the effects of the omission discussed in the preceding paragraph and such adjustments, if any, as might have been determined to be necessary had we been able to identify amounts that should be recorded as general fixed assets, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Fulton Independent School District as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2003, on our consideration of Fulton Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Fulton Independent School District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*, and is not a required part of the general purpose financial statements of the Fulton Independent School District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of management and the Kentucky Department of Education. However, this report is a matter of public record and its distribution is not limited.

October 3, 2003

COMBINED FINANCIAL STATEMENTS

FULTON INDEPENDENT SCHOOL DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003

	GOVERNMENTAL FUND TYPES			
	GENERAL FUND	SPECIAL REVENUE (GRANT) FUND	CAPITAL PROJECTS FUNDS	DEBT SERVICE FUNDS
ASSETS AND RESOURCES				
Cash and cash equivalents - Notes 1 and 3	\$599,058	\$ (61,610)	\$112,514	\$76,397
Investments - Note 6	46,405			
Receivables				
Accounts	22,511		409	
Intergovernmental - Federal		185,919		
Intergovernmental - State		24,336		
Inventories - Note 1				
Capital assets - Note 4				
Accumulated depreciation - Note 4				
Amounts to be provided for accumulated sick leave - Note 7				
Amounts to be provided for retirement of General Long-Term Obligations - Note 5				
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS AND RESOURCES	<u>\$667,974</u>	<u>\$148,645</u>	<u>\$112,923</u>	<u>\$76,397</u>
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue - Note 1		148,645		
Obligation under capital leases - Note 5				
Obligation for eligible employees' accumulated sick leave - Note 7				
Obligation for future accumulated sick leave - Note 7				
Total Liabilities	<hr/> -	<hr/> <u>148,645</u>	<hr/> -	<hr/> -
Fund Equity				
Retained earnings				
Reserved for inventory/fixed assets				
Unreserved				
Fund Balances				
Reserved for encumbrances - Notes 1 and 14	13,363			
Reserved for debt service				76,397
Reserved for construction	194,602		20,446	
Reserved for accumulated sick leave - Note 7	46,405			
Unreserved	<u>413,604</u>		<u>92,477</u>	
Total Fund Equity	<u>667,974</u>	<hr/> -	<u>112,923</u>	<u>76,397</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$667,974</u>	<u>\$148,645</u>	<u>\$112,923</u>	<u>\$76,397</u>

See Accompanying Notes

<u>PROPRIETARY FUND TYPE</u>	<u>FIDUCIARY FUND TYPE</u>	<u>ACCOUNT GROUP</u>	
<u>ENTERPRISE (FOOD SERVICE) FUND</u>	<u>EXPENDABLE TRUST FUNDS</u>	<u>GENERAL LONG-TERM OBLIGATIONS</u>	<u>TOTALS (MEMORANDUM ONLY)</u>
\$ 5,615	\$61,168	\$ -	\$ 793,142 46,405
	85		23,005 185,919 24,336 4,678 69,545 (46,461)
4,678 69,545 (46,461)		245,811	245,811
<u> </u>	<u> </u>	<u>2,629,193</u>	<u>2,629,193</u>
\$ <u>33,377</u>	\$ <u>61,253</u>	\$ <u>2,875,004</u>	\$ <u>3,975,573</u>
\$ -	\$ 20	\$ -	\$ 20 148,645 2,629,193 92,811
		2,629,193	2,629,193
		92,811	92,811
<u> </u>	<u> </u>	<u>153,000</u>	<u>153,000</u>
<u>-</u>	<u>20</u>	<u>2,875,004</u>	<u>3,023,669</u>
27,762 5,615			27,762 5,615
			13,363 76,397 215,048
<u> </u>	<u>61,233</u>	<u> </u>	<u>46,405</u>
<u>33,377</u>	<u>61,233</u>	<u>-</u>	<u>567,314</u>
\$ <u>33,377</u>	\$ <u>61,253</u>	\$ <u>2,875,004</u>	\$ <u>3,975,573</u>

FULTON INDEPENDENT SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
YEAR ENDED JUNE 30, 2003

	<u>GOVERNMENTAL FUND TYPES</u>				<u>FIDUCIARY FUND TYPE</u>	
	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE (GRANT) FUND</u>	<u>CAPITAL PROJECTS FUNDS</u>	<u>DEBT SERVICE FUNDS</u>	<u>EXPENDABLE TRUST FUNDS</u>	<u>TOTALS (MEMORANDUM ONLY)</u>
REVENUES						
From local sources						
Taxes						
Property - Note 1	\$ 684,912	\$ -	\$ 49,267	\$ -	\$ -	\$ 734,179
Motor vehicle - Note 1	64,138		4,875			69,013
Utilities	204,836					204,836
Earnings on investments	10,791	488	1,666		220	13,165
Student activities		234			93,584	93,818
Other local revenues	7,014	860				7,874
Intergovernmental - State	2,360,004	324,914	118,848	95,903		2,899,669
Intergovernmental - Indirect Federal		668,106				668,106
Total Revenues	<u>3,331,695</u>	<u>994,602</u>	<u>174,656</u>	<u>95,903</u>	<u>93,804</u>	<u>4,690,660</u>
EXPENDITURES						
Current						
Instruction	1,983,733	900,612				2,884,345
Support Services						
Student	111,258	27,700			88,248	227,206
Instructional staff	107,338					107,338
District administration	297,673					297,673
School administration	179,119					179,119
Business	52,868					52,868
Plant operations and management	328,949					328,949
Student transportation	21,927					21,927
Central office	4,234					4,234
Community service		66,290				66,290
Total Expenditures	<u>3,087,099</u>	<u>994,602</u>	<u>-</u>	<u>-</u>	<u>88,248</u>	<u>4,169,949</u>
Excess of Revenues Over Expenditures	<u>244,596</u>	<u>-</u>	<u>174,656</u>	<u>95,903</u>	<u>5,556</u>	<u>520,711</u>
OTHER FINANCING SOURCES (USES)						
Indirect cost transfer	16,763					16,763
Operating transfers in - Note 15				140,538		140,538
Operating transfers out - Note 15			(140,538)			(140,538)
Payment of bond principal				(145,000)		(145,000)
Payment of bond interest				(92,735)		(92,735)
Proceeds from sale of assets	3,838					3,838
Total Other Financing Sources (Uses)	<u>20,601</u>	<u>-</u>	<u>(140,538)</u>	<u>(97,197)</u>	<u>-</u>	<u>(217,134)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses - Note 16	265,197	-	34,118	(1,294)	5,556	303,577
Fund Balance July 1, 2002	<u>402,777</u>	<u>-</u>	<u>78,805</u>	<u>77,691</u>	<u>55,677</u>	<u>614,950</u>
Fund Balance June 30, 2003	<u>\$ 667,974</u>	<u>\$ -</u>	<u>\$ 112,923</u>	<u>\$ 76,397</u>	<u>\$ 61,233</u>	<u>\$ 918,527</u>

See Accompanying Notes

FULTON INDEPENDENT SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 2003

	Enterprise (Food Service) Fund
OPERATING REVENUES	
Lunchroom sales	\$ 52,325
Other operating revenues	<u>100</u>
Total Operating Revenues	<u>52,425</u>
OPERATING EXPENSES	
Salaries, wages and fringe benefits	123,434
Contract services	7,496
Materials and supplies	95,066
Depreciation expense	4,548
Indirect costs	16,763
Other operating expenses	<u>292</u>
Total Operating Expenses	<u>247,599</u>
Operating Loss	<u>(195,174)</u>
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	168,662
Donated commodities	11,286
Commodities used	(11,286)
State grants	3,530
Interest income	201
Gain on disposition of assets	<u>522</u>
Total Non-Operating Revenues (Expenses)	<u>172,915</u>
Net Loss - Note 16	(22,259)
Retained Earnings July 1, 2002	<u>55,636</u>
Retained Earnings June 30, 2003	<u>\$ 33,377</u>

See Accompanying Notes

**FULTON INDEPENDENT SCHOOL DISTRICT
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 2003**

	Enterprise (Food Service) Fund
	<hr/>
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Loss - Note 16	\$(22,259)
Adjustments to reconcile net loss to cash provided by operating activities:	
Depreciation expense	4,548
Decrease in accounts receivable	14,734
(Increase) in inventories	(420)
(Decrease) in accounts payable	<u>(2,751)</u>
Net Cash Used by Operating Activities	<u>(6,148)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of fixed assets	(1,261)
Loss on sale of fixed assets	<u>879</u>
Net Cash Provided by Investing Activities	<u>(382)</u>
 Net Decrease in Cash and Cash Equivalents	(6,530)
 Cash and Cash Equivalents July 1, 2002	<u>12,145</u>
 Cash and Cash Equivalents June 30, 2003	<u><u>\$ 5,615</u></u>

See Accompanying Notes

FULTON INDEPENDENT SCHOOL DISTRICT
COMPARISON OF REVENUES AND EXPENDITURES TO BUDGET
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2003

	<u>GENERAL FUND</u>			<u>SPECIAL REVENUE FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES						
From local sources						
Taxes						
Property - Note 1	\$ 612,581	\$ 684,912	\$ 72,331	\$ -	\$ -	\$ -
Motor vehicle - Note 1	55,062	64,138	9,076			
Utilities	156,000	204,836	48,836			
Earnings on investments	8,000	10,791	2,791	3,640	488	(3,152)
Student activities					234	234
Other local revenues	4,620	7,014	2,394		860	860
Intergovernmental - State	1,823,720	2,360,004	536,284	340,203	324,914	(15,289)
Intergovernmental - Indirect Federal				<u>697,467</u>	<u>668,106</u>	<u>(29,361)</u>
Total Revenues	<u>2,659,983</u>	<u>3,331,695</u>	<u>671,712</u>	<u>1,041,310</u>	<u>994,602</u>	<u>(46,708)</u>
EXPENDITURES						
Current						
Instruction	1,591,275	1,983,733	(392,458)	944,610	900,612	43,998
Support Services						
Student	90,553	111,258	(20,705)	25,510	27,700	(2,190)
Instructional staff	80,146	107,338	(27,192)			
District administration	452,386	297,673	154,713			
School administration	164,664	179,119	(14,455)			
Business	45,060	52,868	(7,808)			
Plant operations and management	336,482	328,949	7,533			
Student transportation	26,462	21,927	4,535			
Central office	8,400	4,234	4,166			
Community service				71,190	66,290	4,900
Facilities acquisition and construction						
Total Expenditures	<u>2,795,428</u>	<u>3,087,099</u>	<u>(291,671)</u>	<u>1,041,310</u>	<u>994,602</u>	<u>46,708</u>
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	<u>(135,445)</u>	<u>244,596</u>	<u>380,041</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in - Note 15	10,000	16,763	(6,763)			
Operating transfers out - Note 15						
Proceeds from sale of assets	<u>150</u>	<u>3,838</u>	<u>(3,688)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing						
Sources (Uses)	<u>10,150</u>	<u>20,601</u>	<u>(10,451)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other						
Financing Sources Over (Under)						
Expenditures and Other Financing						
Uses - Note 16	<u>(125,295)</u>	<u>265,197</u>	<u>390,492</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance July 1, 2002	<u>161,771</u>	<u>402,777</u>	<u>241,006</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance June 30, 2003	<u>\$ 36,476</u>	<u>\$ 667,974</u>	<u>\$ 631,498</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes

CAPITAL PROJECTS FUNDS			TOTALS (MEMORANDUM ONLY)		
<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
\$ 48,674	\$ 49,267	\$ 593	\$ 661,255	\$ 734,179	\$ 72,924
2,988	4,875	1,887	58,050	69,013	10,963
			156,000	204,836	48,836
	1,666	1,666	11,640	12,945	1,305
				234	234
			4,620	7,874	3,254
117,321	118,848	1,527	2,281,244	2,803,766	522,522
			<u>697,467</u>	<u>668,106</u>	<u>(29,361)</u>
<u>168,983</u>	<u>174,656</u>	<u>5,673</u>	<u>3,870,276</u>	<u>4,500,953</u>	<u>630,677</u>
			2,535,885	2,884,345	(348,460)
			116,063	138,958	(22,895)
			80,146	107,338	(27,192)
			452,386	297,673	154,713
			164,664	179,119	(14,455)
			45,060	52,868	(7,808)
			336,482	328,949	7,533
			26,462	21,927	4,535
			8,400	4,234	4,166
			71,190	66,290	4,900
<u>88,432</u>	<u> </u>	<u>88,432</u>	<u>88,432</u>	<u> </u>	<u>88,432</u>
<u>88,432</u>	<u>-</u>	<u>88,432</u>	<u>3,925,170</u>	<u>4,081,701</u>	<u>(156,531)</u>
<u>80,551</u>	<u>174,656</u>	<u>94,105</u>	<u>(54,894)</u>	<u>419,252</u>	<u>474,146</u>
			10,000	16,763	(6,763)
(139,189)	(140,538)	1,349	(139,189)	(140,538)	1,349
<u> </u>	<u> </u>	<u> </u>	<u>150</u>	<u>3,838</u>	<u>(3,688)</u>
<u>(139,189)</u>	<u>(140,538)</u>	<u>1,349</u>	<u>(129,039)</u>	<u>(119,937)</u>	<u>(9,102)</u>
<u>(58,638)</u>	<u>34,118</u>	<u>92,756</u>	<u>(183,933)</u>	<u>299,315</u>	<u>483,248</u>
<u>58,638</u>	<u>78,805</u>	<u>20,167</u>	<u>220,409</u>	<u>481,582</u>	<u>261,173</u>
\$ <u>-</u>	\$ <u>112,923</u>	\$ <u>112,923</u>	\$ <u>36,476</u>	\$ <u>780,897</u>	\$ <u>744,421</u>

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fulton Independent School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

Reporting Entity

The Fulton Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Fulton Independent School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Fulton Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Fulton Independent School District Finance Corporation - On May 20, 1991, the Fulton Independent Board of Education resolved to authorize the establishment of the Fulton Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Fulton Independent Board of Education also comprise the Corporation's Board of Directors.

Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds are as follows:

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Governmental Fund Types

- a. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unreserved fund balances are considered as resources available for use.
- b. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. They include federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.
- c. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. (See reference to Program Review 96-DFIN-157.)
 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Funds account for proceeds from sales of bonds and other revenues to be used for authorized construction.

II. Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Proprietary Fund Type (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA).

IV. Fiduciary Fund Types (includes agency and trust funds)

The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*. The scholarship funds are held for others and the Board has responsibility for custody and safekeeping.

V. Account Groups

a. General Long-Term Obligations Account Group

To make a clear distinction between long-term liabilities related to specific funds and those of a general nature, the General Long-Term Obligations Account Group is used. This group of accounts is established to account for all long-term obligations of the District, including bonded debt and lease obligations, except those accounted for in proprietary funds and trust funds.

b. General Fixed Assets Account Group

The general fixed assets are recorded as expenditures of the fund from which the disbursement is made, except for the Proprietary Fund. The District does not maintain a record of the cost of its property and equipment, therefore, no group of accounts is maintained. Note 4 provides a summary of depreciable assets included in the Proprietary Fund.

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are levied on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes become delinquent after December 31.

Property tax revenues and other governmental fund financial resource increments (i.e., bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period.

The property tax rates for the year ended June 30, 2003 to finance General Fund operations were \$.77 per \$100 valuation real property and business tangible personal property, and \$.80 per \$100 valuation for motor vehicles.

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes levied to finance fiscal year 2003 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, and, matching requirements, in which the School District must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

Basis of Accounting

The records of the District are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings.

Adjustments have been made to properly present the financial statements of the governmental fund types on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Fund is accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year end is provided for at June 30, 2003. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Inventories of the proprietary fund are recorded at cost using the first-in, first-out method. Inventories are expensed when purchased by the governmental fund types.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Total Columns

Total columns on the financial statements are indicated as "Memorandum Only", as data in these columns do not present financial positions, results of operations or changes in fund balance in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

NOTE 3 - CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was \$793,142. Of the total cash balance, \$100,000 was covered by Federal depository insurance, with the remaining cash in the bank covered by a collateral agreement and collateral held by the pledging bank's trust department in the District's name.

Cash and cash equivalents at June 30, 2003, consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Reelfoot Bank - checking and money market	\$ <u>1,118,879</u>	\$ <u>793,142</u>

NOTE 4 - CAPITAL ASSETS - PROPRIETARY FUND

A summary of the Proprietary Fund capital assets at June 30, 2003, follows:

Furniture and Equipment	\$ 69,545
Less: Accumulated Depreciation	<u>(46,461)</u>
Net Capital Assets	\$ <u>23,084</u>

Depreciation has been provided over the estimated useful lives of 5 to 12 years, using the straight-line method of depreciation.

NOTE 5 - BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each issue, the issue dates, interest rates, and maturity dates are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>
1998	\$1,555,000	3.90% - 4.40%	2011
2000	\$ 900,000	4.50% - 5.30%	2021

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Fulton Independent School District and the City of Fulton, Kentucky to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

NOTE 5 - BONDED DEBT AND LEASE OBLIGATIONS (CONTINUED)

In 1987, the District entered into "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs.

Changes in the bonded debt and lease obligations were as follows:

<u>Issue</u>	<u>Balance at July 1, 2002</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2003</u>
1998	\$1,120,000	\$ -	\$(140,000)	\$ 980,000
2000	895,000		(5,000)	890,000
	<u>\$2,015,000</u>	<u>\$ -</u>	<u>\$(145,000)</u>	<u>\$1,870,000</u>

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003, for debt service (principal and interest) are as follows:

<u>YEAR</u>	<u>FULTON INDEPENDENT SCHOOL DISTRICT</u>		<u>KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION</u>		<u>TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	
2003-04	\$ 78,658	\$ 69,032	\$ 81,342	\$19,581	\$ 248,613
2004-05	78,942	65,742	81,058	16,083	241,825
2005-06	79,326	62,337	85,674	12,598	239,935
2006-07	79,849	58,874	90,151	8,871	237,745
2007-08	94,474	55,228	30,526	4,904	185,132
2008-09	88,101	51,159	31,899	3,561	174,720
2009-10	80,969	47,150	49,031	2,158	179,308
2010-11	10,000	43,558	-	-	53,558
2011-12	65,000	41,649	-	-	106,649
2012-13	65,000	38,301	-	-	103,301
2013-14	70,000	34,825	-	-	104,825
2014-15	75,000	31,091	-	-	106,091
2015-16	80,000	27,080	-	-	107,080
2016-17	85,000	22,790	-	-	107,790
2017-18	90,000	18,240	-	-	108,240
2018-19	95,000	13,383	-	-	108,383
2019-20	100,000	8,215	-	-	108,215
2020-21	105,000	2,783	-	-	107,783
	<u>\$1,420,319</u>	<u>\$691,437</u>	<u>\$449,681</u>	<u>\$67,756</u>	<u>\$2,629,193</u>

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

NOTE 6 - INVESTMENTS

The District invests the general fund reserve for accumulated sick leave in a certificate of deposit. At June 30, 2003, this certificate has an interest rate of 2.3% and matures on October 28, 2003.

NOTE 7 - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Certified employees of the District are entitled to payment of 30% of the value of accumulated sick and personal days upon retirement. The total amount of accrued benefits for employees with 27 or more years of service at June 30, 2003, is \$92,811, which is recorded in the General Long-Term Obligations Account Group. Kentucky Revised Statutes allows the District to reserve up to 50% of these benefits. Accordingly, \$46,405 is a General Fund Balance reservation at the balance sheet date. The District recognizes the expense of these benefits when payment is made to a retiring employee.

Based upon the number of accumulated sick and personal days of employees who have less than 27 years of service at June 30, 2003, the District's future obligation is estimated to be approximately \$153,000, which is recorded in the General Long-Term Obligations Account Group. The vesting method is used to estimate this future obligation.

NOTE 8 - RETIREMENT PLANS

The District contributes to the Teachers' Retirement System of Kentucky (KTRS) and the County Employees' Retirement System (CERS). These are cost-sharing, multiple employer defined benefit plans. KTRS administers retirement and disability annuities, and death and survivor benefits to certified employees and beneficiaries of the public school systems and other public educational agencies in Kentucky. CERS administers similar programs for its employees and beneficiaries of county governmental entities, which includes classified employees of the District.

Contribution rates for both plans are determined by the legislature. KTRS members are required to contribute 9.855% of the salaries to KTRS and the Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contribution. CERS members are required to contribute 5% of their salaries to CERS and the District is required to contribute 6.34% of salaries.

KTRS issues a publicly available financial report that can be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601. CERS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

The District's total payroll for the year was \$2,786,982. The payroll for employees covered under KTRS was \$2,234,658 and for CERS was \$535,637.

The contribution requirement for CERS for the year ended June 30, 2003, was \$60,673 which consisted of \$33,921 from the District and \$26,752 from the employees. The District has a contribution requirement to KTRS of \$23,764 for certified personnel of federal programs.

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

NOTE 8 - RETIREMENT PLANS (CONTINUED)

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plan's status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS <u>June 30, 2002</u>	CERS <u>June 30, 2002</u>
Assets available for benefits, at fair value	\$13,588,800,000	\$ 6,883,300,000
Pension benefit obligation	<u>15,695,600,000</u>	<u>5,492,600,000</u>
(Underfunded) pension benefit obligations	<u>\$(2,106,800,000)</u>	<u>\$(1,390,700,000)</u>

As the Board is only one of several employers participating in the plan, it is not practicable to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets.

NOTE 9 - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of cash advances, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The Board (Lessor) entered into a lease agreement with the Fulton Board of Education Head Start Program (Lessee), effective August 1, 1993, for a period of one year. The lease provides 29 one-year renewal options at a total amount of \$95,110 in rental payments to the Fulton Independent School District. These lease payments are to be used for improvement of the Lessor's physical facilities and, in the event the Lessor elects to withdraw from the agreement during its term or any extensions thereof, the Lessor will reimburse the Lessee on a prorated basis.

NOTE 10 - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE 11 - LITIGATION

Counsel has stated there is no pending or threatened litigation as of June 30, 2003.

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 13 - COBRA

The District has notified all terminated employees of available continuing insurance coverage as mandated under COBRA.

NOTE 14 - RESERVATIONS OF FUND EQUITY

Fund equities that have been reserved at June 30, 2003 consist of the following reserve for encumbrances:

	General Fund
Purchase orders outstanding	\$ 4,363
SBDM carryover	<u>9,000</u>
	<u>\$13,363</u>

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2003

NOTE 15 - TRANSFER OF FUNDS

The following operating transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Building	Debt Service	Debt Service	\$ 89,323
Capital Outlay	Debt Service	Debt Service	\$ 51,215
Food Service	General Fund	Indirect Costs	\$ 16,763

NOTE 16 - DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that result in a current year deficit of revenues/transfers in over expenditures/transfers out resulting in a corresponding reduction of fund balance:

Capital Outlay Fund	\$ 6,165
Debt Service Funds	\$ 1,294
Food Service Fund	\$22,259

NOTE 17 - ON-BEHALF PAYMENTS

The Commonwealth of Kentucky makes certain payments for teacher retirement system contributions, life and health insurance coverages, and vocational education costs for the benefit of the District and its employees. The total of these payments, \$538,582, has been included in revenues and the applicable expenditure functions in these financial statements.

NOTE 18 - CHANGES IN ACCOUNTING STANDARDS

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments throughout the United States. It will create new information and will restructure much of the information that governments have presented in the past. It establishes that the basic financial statements and required supplementary information for the general purpose governments should consist of:

- Management's discussion and analysis (MD&A)
- Basic financial statement
 - Government-wide financial statements
 - Fund financial statements
- Notes to the financial statements
- Required supplementary information (RSI)

GASB Statement No. 34 is effective in three phases based on total annual revenues of the primary government's governmental and proprietary funds reported for the fiscal year ended June 30, 1999. GASB Statement No. 34 is effective for the District for the fiscal year beginning July 1, 2003. The effect GASB Statement No. 34 has on the District has not yet been determined.

SUPPLEMENTARY INFORMATION

FULTON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
JUNE 30, 2003

	<u>BUILDING FUND</u>	<u>SEEK CAPITAL OUTLAY FUND</u>	<u>CONSTRUCTION FUND</u>	<u>TOTALS</u>
ASSETS AND RESOURCES				
Cash and cash equivalents	\$ 73,090	\$ 18,978	\$ 20,446	\$112,514
Accounts receivable	<u>409</u>	<u> </u>	<u> </u>	<u>409</u>
TOTAL ASSETS AND RESOURCES	<u>\$ 73,499</u>	<u>\$ 18,978</u>	<u>\$ 20,446</u>	<u>\$112,923</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Reserved for construction			20,446	20,446
Unreserved	<u>73,499</u>	<u>18,978</u>	<u> </u>	<u>92,477</u>
Total Fund Balances	<u>73,499</u>	<u>18,978</u>	<u>20,446</u>	<u>112,923</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 73,499</u>	<u>\$ 18,978</u>	<u>\$ 20,446</u>	<u>\$112,923</u>

**FULTON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
EXPENDABLE TRUST FUNDS
JUNE 30, 2003**

	<u>ACTIVITY FUNDS</u>	<u>SCHOLARSHIP FUNDS</u>	<u>TOTALS</u>
ASSETS AND RESOURCES			
Cash and cash equivalents	\$39,090	\$22,078	\$61,168
Accounts receivable	<u>85</u>	<u> </u>	<u>85</u>
TOTAL ASSETS AND RESOURCES	<u>\$39,175</u>	<u>\$22,078</u>	<u>\$61,253</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ <u>20</u>	\$ <u>-</u>	\$ <u>20</u>
Total Liabilities	<u>20</u>	<u>-</u>	<u>20</u>
Fund Balances			
Unreserved	<u>39,155</u>	<u>22,078</u>	<u>61,233</u>
Total Fund Balances	<u>39,155</u>	<u>22,078</u>	<u>61,233</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$39,175</u>	<u>\$22,078</u>	<u>\$61,253</u>

FULTON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2003

	<u>BUILDING FUND</u>	<u>SEEK CAPITAL OUTLAY FUND</u>	<u>CONSTRUCTION FUND</u>	<u>TOTALS</u>
REVENUES				
From local sources				
Taxes				
Property	\$ 49,267	\$ -	\$ -	\$ 49,267
Motor vehicle	4,875			4,875
Earnings on investments	1,387		279	1,666
Intergovernmental - State	<u>73,798</u>	<u>45,050</u>		<u>118,848</u>
Total Revenues	<u>129,327</u>	<u>45,050</u>	<u>279</u>	<u>174,656</u>
EXPENDITURES				
Current				
Instruction				
Facilities acquisition and construction				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over Expenditures	<u>129,327</u>	<u>45,050</u>	<u>279</u>	<u>174,656</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(89,323)</u>	<u>(51,215)</u>		<u>(140,538)</u>
Total Other Financing Sources (Uses)	<u>(89,323)</u>	<u>(51,215)</u>	<u>-</u>	<u>(140,538)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	40,004	(6,165)	279	34,118
Fund Balances July 1, 2002	<u>33,495</u>	<u>25,143</u>	<u>20,167</u>	<u>78,805</u>
Fund Balances June 30, 2003	<u>\$ 73,499</u>	<u>\$ 18,978</u>	<u>\$20,446</u>	<u>\$ 112,923</u>

FULTON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2003

	<u>1998</u> <u>BONDS</u> <u>FUND</u>	<u>2000</u> <u>BONDS</u> <u>FUND</u>	<u>TOTALS</u>
REVENUES			
Intergovernmental - State	\$ <u>95,903</u>	\$ <u>-</u>	\$ <u>95,903</u>
Total Revenues	<u>95,903</u>	<u>-</u>	<u>95,903</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in			
SEEK Capital Outlay Fund		51,215	51,215
Building Fund	89,323		89,323
Payment of bond principal	(140,000)	(5,000)	(145,000)
Payment of bond interest	<u>(46,520)</u>	<u>(46,215)</u>	<u>(92,735)</u>
Total Other Financing			
Sources (Uses)	<u>(97,197)</u>	<u>-</u>	<u>(97,197)</u>
Excess (Deficiency) of Revenues and			
Other Financing Sources Over (Under)			
Expenditures and Other Financing Uses	(1,294)	-	(1,294)
Fund Balance July 1, 2002	<u>77,691</u>	<u>-</u>	<u>77,691</u>
Fund Balance June 30, 2003	<u>\$ 76,397</u>	<u>\$ -</u>	<u>\$ 76,397</u>

FULTON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND FUND BALANCES
EXPENDABLE TRUST FUNDS
YEAR ENDED JUNE 30, 2003

<u>Fund</u>	<u>Fund Balance</u> <u>July 1, 2002</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance</u> <u>June 30, 2003</u>
Activity Funds				
High School:				
General Fund	\$ 3,244	\$ 6,651	\$ 8,205	\$ 1,690
Girls Basketball	4,792	8,950	8,841	4,901
Football	51	12,719	12,268	502
Boys Basketball	4,657	9,215	7,611	6,261
Baseball	803	1,732	2,193	342
Softball	450	1,082	1,532	-
Cross Country	1,586	1,365	2,070	881
Golf	191	-	139	52
Cheerleaders	711	6,077	6,527	261
Freshmen Class	-	310	-	310
Sophomore Class	834	908	104	1,638
Junior Class	933	653	-	1,586
Senior Class	2,160	2,529	4,689	-
FCCLA	-	51	51	-
Play	436	5,861	4,697	1,600
Math/Science Club	1,243	18	80	1,181
Beta Club	246	207	453	-
FCA	85	-	-	85
Academic Team	-	209	209	-
Industrial Tech	83	-	46	37
FBLA	1	-	-	1
Science Lab	249	500	499	250
Yearbook	2,107	6,389	2,698	5,798
Kennel	-	403	377	26
Y Club	1,015	3,276	3,380	911
Jr. Y Club	65	291	146	210
Band	325	2,142	1,949	518
Volleyball	-	1,253	1,243	10
Concessions	-	10,414	9,935	479
Vending	-	1,471	1,030	441
Entrepreneurship	-	245	72	173
Mentoring	-	571	-	571
H.S. Lounge Fund	-	903	164	739
Jr. High Football	1,860	1,489	3,267	82
Jr. High Basketball	1,636	5,121	5,905	852
Jr. High Cheerleaders	72	4,039	3,793	318
Jr. High Beta Club	1,206	149	90	1,265
	31,041	97,193	94,263	33,971
Less Interfund Transfers	-	(7,833)	(7,833)	-
Fulton Independent High School	31,041	89,360	86,430	33,971

FULTON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND FUND BALANCES
EXPENDABLE TRUST FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2003

<u>Fund</u>	<u>Fund Balance July 1, 2002</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance June 30, 2003</u>
Activity Funds (Continued)				
Carr Elementary School	<u>2,778</u>	<u>4,224</u>	<u>1,818</u>	<u>5,184</u>
Total Activity Funds	33,819	93,584	88,248	39,155
Scholarship Fund	<u>21,858</u>	<u>220</u>	<u>-</u>	<u>22,078</u>
TOTALS	<u>\$ 55,677</u>	<u>\$93,804</u>	<u>\$88,248</u>	<u>\$ 61,233</u>

FULTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Passed Through State Department of Education:				
Title I	84.010*	220-4500-3102	\$ 217,752	\$ 71,962
Title I	84.010*	220-4500-3103	238,172	138,114
Title 1 - Even Start	84.213	220-4500-3230	131,648	204
Title 1 - Even Start	84.213	220-4500-3232	108,885	12,581
Title 1 - Even Start	84.213	220-4500-3233	100,497	92,394
Title VI	84.298A	220-4500-3312	3,387	(897)
Title V	84.298A	220-4500-3343	3,453	3,481
I.D.E.A., Part B	84.027	220-4500-3372	88,083	7,250
I.D.E.A., Part B	84.027	220-4500-3373	99,732	91,386
I.D.E.A., Part B - Preschool	84.173	220-4500-3432	19,585	13,105
I.D.E.A., Part B - Preschool	84.173	220-4500-3433	19,509	10,367
Title II - Carl D. Perkins	84.048	220-4500-3483	7,588	7,638
Title VI - Rural/Low Income School Program	84.358	220-4500-3503	9,706	6,207
Title II - Reading Excellence	84.338	220-4500-3891	121,340	23,522
Title II - Teacher Quality	84.367	220-4500-4013	47,176	33,923
Title II - Eisenhower Professional Development	84.281A	220-4500-4042	5,846	2,336
Title IV - Safe and Drug-Free Schools	84.186A	220-4500-4062	3,310	1,187
Goals 2000 - School Reform	84.276	220-4500-4131E	12,460	3,998
Title II - Federal Education Technology/No Child Left Behind	84.318X	220-4500-4253	7,087	3,540
Passed Through the Workforce Development Cabinet:				
Tech Prep Education	84.243	220-4500-3632	8,945	1,056
Tech Prep Education	84.243	220-4500-3633	14,000	13,570
Passed Through the Hickman County School District:				
21 st Century Community Learning Centers	84.287*	220-4700-4092	119,015	7,114
21 st Century Community Learning Centers	84.287*	220-4700-4093	76,460	48,719
Passed Through West Kentucky Educational Cooperative:				
Title 1 - Migrant Education	84.011	220-4700-3112	43,596	14,827
Title 1 - Migrant Education	84.011	220-4700-3113	25,510	12,012
Gear Up	84.334A	220-4500-3793G	9,152	10,772
Adult Education	84.002	220-4700-3733	27,104	28,304
Total U.S. Department of Education			<u>1,568,998</u>	<u>658,672</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Passed Through State Department of Agriculture:				
Non-Cash Assistance - Commodities	10.565	510-4500C	11,286	11,286
Passed Through State Department of Education:				
School Breakfast Program	10.553*	510-4500	39,107	39,107
National School Lunch Program	10.555*	510-4500	129,555	129,555
Total U.S. Department of Agriculture			<u>179,948</u>	<u>179,948</u>
TOTAL FEDERAL AWARDS			<u>\$1,748,946</u>	<u>\$ 838,620</u>

*Major program as defined by OMB Circular A-133

FULTON INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the cash activity of the District's federal award programs and does not present transactions that would be included in financial statements of the District presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.

NOTE 2 - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

ADDITIONAL INDEPENDENT AUDITORS' REPORTS

**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Fulton Independent Board of Education
Fulton, Kentucky

We have audited the general purpose financial statements of the Fulton Independent School District as of and for the year ended June 30, 2003, and have issued our report thereon dated October 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Fulton Independent School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Fulton Independent School District, in a separate letter dated October 3, 2003. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract-State Audit Requirements*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fulton Independent School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Fulton Independent School District in a separate letter dated October 3, 2003.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

October 3, 2003

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Fulton Independent Board of Education
Fulton, Kentucky

Compliance

We have audited the compliance of Fulton Independent School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Fulton Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Fulton Independent School District's management. Our responsibility is to express an opinion on Fulton Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fulton Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fulton Independent School District's compliance with those requirements.

In our opinion, Fulton Independent School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Fulton Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Fulton Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

October 3, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FULTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2003

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses a qualified opinion on the general purpose financial statements of Fulton Independent School District.
2. No reportable conditions were disclosed during the audit of the District's financial statements.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133".
5. The auditors' report on compliance for the major federal award programs for the District expresses an unqualified opinion on the major federal programs.
6. The audit disclosed no findings relative to the major federal award programs for the District which are required to be reported in this schedule.
7. The programs tested as major programs included: 21st Century Community Learning Centers (CFDA # 84.287); Child Nutrition Cluster, including the National School Lunch Program (CFDA #10.555), and the School Breakfast Program (CFDA #10.553); and Title I (CFDA #84.010).
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. The District did not qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

None

FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None

MANAGEMENT LETTER POINTS

October 3, 2003

Mrs. Brenda Mahan, Superintendent
Fulton Independent Board of Education
Fulton, Kentucky

In planning and performing our audit of the general purpose financial statements of the Fulton Independent School District for the year ended June 30, 2003, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. A separate report dated October 3, 2003, contains our report on reportable conditions in the District's internal control. This letter does not affect our report dated October 3, 2003, on the general purpose financial statements of the Fulton Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Howe & Melton, LLP

**FULTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
JUNE 30, 2003**

- I. Condition:** The "Quarterly Consolidated Plan Reports" were not electronically filed by the 25th day of the month following the quarters end.

Criteria: The Kentucky Department of Education requires that the "Quarterly Consolidated Plan Reports" be electronically submitted no later than the 25th day of the month following the quarters end.

Cause: Human oversight.

Effect: Reports were not filed in a timely manner.

Recommendation: Electronically file the "Quarterly Consolidated Plan Reports" by the 25th day of the month following the quarters end.

Response: Management has agreed to adopt the recommendation.

MANAGEMENT'S CORRECTIVE ACTION PLAN:

- I. Condition:** The "Quarterly Consolidated Plan Reports" were not electronically filed by the 25th day of the month following the quarters end.

Corrective Action: Electronically file the "Quarterly Consolidated Plan Reports" by the 25th day of the month following the quarters end.

Planned Corrective Action Completion Date: Effective immediately.

Contact Person Responsible for Corrective Action:

Laurie Atwill, Finance Officer
Fulton Independent School District
313 Main Street
Fulton, Kentucky 42041
(270) 472-1553

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**FULTON INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

FINDINGS - FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

REPORTABLE CONDITIONS

U.S. DEPARTMENT OF EDUCATION

21st Century Community Centers - CFDA Number: 84.287
Pass-Through Grantor Numbers:
220-4700-4092, 220-4700-4091

FINDING 02-1

Condition: During our testing, we noted three expenditures charged to the incorrect cost category.

Auditor's Recommendation: The School District should ensure that the Program Director understands how to properly classify program expenditures. A second individual should review the cost categories charged for expenditures.

Current Status: The above recommendation appears to have been adopted.

FINDING 02-2

Condition: While testing disbursements for allowable costs/cost principles, we noted two expenditures that included sales tax.

Auditor's Recommendation: School employees responsible for paying bills should review all invoices for sales tax. If any sales tax amount is included, the employee should reduce the total invoice by this amount and notify the vendor.

Current Status: The above recommendation appears to have been adopted.

U.S. DEPARTMENT OF AGRICULTURE

Child Nutrition Cluster CFCA Numbers: 10.553, 10.555, 10.565
Pass-Through Grantor Number: 510-4500

FINDING 02-3

Condition: The equipment listing for this program did not include the following required information: identification number, source, location, condition and disposition data, when applicable. Also, a physical inventory of equipment had not been taken within the last two years.

FULTON INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
JUNE 30, 2003

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)
REPORTABLE CONDITIONS (CONTINUED)

Auditor's Recommendation Detailed and complete inventory records should be maintained, and a physical inventory should be taken at least once every two years.

Current Status: The above recommendation appears to have been adopted.

MANAGEMENT LETTER POINTS

Activity Funds

- I. **Condition:** There is no separate line in the High School Activity Fund Annual Report for vending machine and concession funds.

Recommendation: Create a separate activity account ledger for each of these funds.

Current Status: The above recommendation appears to have been adopted.

- II. **Condition:** An Internal Account Budget (Form F-SA-3) with attached individual activity fund budgets was not submitted to the Board for approval by May 31, 2002 for the 2002-2003 year.

Recommendation: Each Principal should submit the Internal Account Budget (Form F-SA-3) and attached individual activity fund budgets to the Superintendent by May 15. The Superintendent should submit this to the Board for approval by the end of May for the following school year.

Current Status: The above recommendation appears to have been adopted.

- III. **Condition:** Transfer Forms (Form F-SA-10) were not completed for amounts transferred between activity funds. Also, total receipts and total expenditures on the monthly and annual financial reports were not reduced by the total amounts transferred between activity funds.

Recommendation: Implement the use of Transfer Forms (F-SA-10) for any amounts transferred between activity funds. Reduce total receipts and total expenditures on the monthly and annual financial reports by the total amounts transferred between activity funds for the respective period.

Current Status: The above recommendation appears to have been adopted.

